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A NOTE: GRAVES, SWEENEY AND GOLDMARKBILANZ — WHITHER SWEENEY AND SCHMIDT'S TAGESWERTBILANZ?

Abstract: Graves' [1987] very competent and well-documented descriptions of Mahlberg's and Schmalenbach's *Goldmarkbilanz* techniques should raise no objections on technical grounds. He ably captures and amplifies the mechanical aspects of these major *Betriebswirtschaftslehre* proposals. However, the linking of Sweeney with these *Goldmarkbilanz* proposals in the title and in the first few and then in the final pages of the article, is cause for concern. By only considering links with the *Goldmarkbilanz* techniques, Graves does less than reasonable justice to Sweeney's development of the case for Stabilized Accounting. By not considering the other major stabilization proponent, Fritz Schmidt, albeit a proponent of replacement cost based stabilization, Graves provides only a partial explanation of the myriad of factors influencing the development of Sweeney's inflation accounting proposals.

Graves' [1987] very competent descriptions of Mahlberg's and Schmalenbach's *Goldmarkbilanz* (Gold mark balance sheet accounting) techniques should raise no objections on technical grounds. He ably captures and amplifies the mechanical aspects of these major *Betriebswirtschaftslehre* (academic discipline relating to theory of the firm) stabilization proposals. But, in telling only part of the story, he may do less than reasonable justice to Henry Sweeney's development of the case for *Stabilized Accounting*. Graves acknowledges that Schmidt [1921] contains the first comprehensive statement in the accounting literature of *current value (cost) accounting*. But then, (in footnote 2) explains "[as Schmidt's organic stabilization theory was] distinct from the gold-mark model . . . [it] is not discussed in this study." This exclusion results in a partial presentation of the links between Henry Sweeney's ideas on *inflation accounting* and those already well developed by European business economists, resulting, *inter alia*, in the *German gold mark model*.

Importantly, telling only part of the story when coupled with the tendency for "earlier accounting knowledge to become lost to future accounting scholars" [Bricker, 1988], creates the potential for readers to misinterpret the relative impacts of the ideas of Mahlberg, Schmalenbach and those of Schmidt, on Sweeney. Even worse, younger academics may perceive Sweeney to have been an indexed or constant purchasing power advocate, a proposition that Clarke [1976 and 1982] and Tweedie and Whittington [1984], *inter alia*, have refuted.

It is reasonable also to argue that Graves' account of the Mahlberg and Schmalenbach proposals sheds little further light on either the connections between German *Betriebswirtschaftslehre* theories and Sweeney on the one hand; and the *substantial thrust and essence* of Sweeney's proposals, on the other. The examinations, of the latter by Clarke [1976 and 1982] and the former by Clarke and Dean [1986 and 1988],¹ provide the basis of this note.

From a historiographical perspective these facets of Graves' contribution arise from the manner in which he draws on "Sweeney 1927" and "Sweeney 1928" and then moves directly to "Sweeney 1936." Sweeney's articles, of which there were thirteen between 1928 and 1936, are not canvassed; an omission aggravated by Graves not attributing any significance to the pause in Sweeney's writings from February 1928 to December 1930. Yet both the pause and the developments underlying those other articles were essential elements of Sweeney's process of sorting-out his ideas between the completion of the first draft of his Ph.D. thesis in May 1927 and the 1936 publication of his stabilization techniques — an edited version of his completed Ph.D. manuscript. We argue, however, that a different and broader perception of the circumstances affecting Sweeney's proposal, can be entertained. This note develops that broader perception. In particular, it draws upon the strong evidence of Fritz Schmidt's ideas underlying the development of Sweeney's stabilization thesis.

Accordingly, consider first Schmidt's prominence in the *Betriebswirtschaftslehre* movement in general, and in the development of *Tageswertbilanz* proposals in particular. Then, consider the unequivocal links between Sweeney's preference for stabilization based on replacement prices or reproductive

¹Clarke and Dean [1986] provide details of the works of Fritz Schmidt, leading German *Tageswertbilanz* (current value accounting) theorist of the 1920s.

costs and the impact of Schmidt's *Tageswertbilanz* on the development of Sweeney's stabilization ideas.

SCHMIDT, *BETRIEBSWIRTSCHAFTSLEHRE* AND *TAGESWERTE*

Elsewhere, Schmidt's "organic" *Betriebswirtschaft* theory (theory of the firm) has been described in detail [Clarke and Dean, 1986]. Schmidt argued for *Tageswertbilanz*, i.e., a system of accounting using replacement cost valuations at the sales date (for factor inputs of items sold) and replacement costs as at balance sheet date for unsold items. His method aimed to ensure a relative maintenance of value — *Das Prinzip der relativen Werterhaltung* — ensuring thereby that the firm's capital was retained in the same proportion to the total capital in the economy, as it bore at the date of the transaction giving rise to the original transaction data.² He perceived accounting as an integral part of the process of efficiently allocating resources in the economy. In our 1986 article we noted that he "proposed his *organic current value* accounting in a deliberate attempt to place the theory of the firm, and accounting for the firm, in the context of a dynamic economy" (p. 69). Schmidt's concept of the *maintained* firm entailed the retention of:

- (i) its relative physical capacity to *satisfy* consumers' needs,
- (ii) its relative share of the market for its production, and
- (iii) its relative overall share in the production fabric of the economy.

The inappropriateness of this relativist organic concept in a dynamic market oriented system was discussed in detail in Clarke and Dean [1986].³

Notwithstanding this criticism, it is reasonable to think of Schmidt as a *pathbreaker*. Seicht [1982] and Schneider [1981] suggest that Schmidt extended the earlier European works of Ciompa [1910], Kovero [1912] and Faes [1913] whilst translations we have commissioned of his work suggest he drew upon the ideas of the economist, Ricardo [1817] in formulating his system of *Tageswertbilanz*. In the Anglo-American literature Mattessich [1982] suggests Schmidt [1921] provided the first comprehensive current cost accounting system — Graves con-

²Discussion of Schmidt's relative maintenance of value principle appears in Clarke and Dean [1986, pp. 69-70 and 98-99].

³It is ironic that Schmidt's concern with an economy's dynamics should result in a theory of accounting premised on firm continuity.

curs [1987, p. 35]. Another feature is that Schmidt's influence spread beyond the domain of purely accounting matters. Schwantag [1951] explained that noted business cycles economist Gottfried Haberler was aware, and approved, of Schmidt's 1927 monograph highlighting the connection between faulty accounting and the exacerbation of trade cycles. A similar line of argument was pursued by Mitchell [1923], Lacey [1952], Baxter [1955] and by many others (see Ray [1960] for details).

Schmidt, however, was not alone in 1920s Germany in pursuing a "dynamic" theory of business economics, in particular advocating a move from the "static" (balance sheet oriented) perspective to a more "dynamic" (income account oriented) perspective.⁴ Others to pursue the same theory included Schmalenbach [1919], Geldmacher [1920], Mahlberg [1920], Prion [1921], Walb [1921], and Kalveram [1923; for more details see Clarke and Dean 1986, pp. 83-88]. But, despite the prestige of those others, Schmidt was acknowledged as the intellectual leader of the "organic relativist" perspective, just described [Schrantz, 1930, p. 166].

SWEENEY — PREFERENCE FOR "TAGESWERTE OR WIEDERBESCHAFFUNGSWERTE"

It is difficult to deduce from Graves' account Sweeney's overwhelming preference for asset valuations based on current/replacement or reproductive costs — *Tageswerte* or *Wiederbeschaffungswerte* respectively. In this respect the account of "Inflation Accounting and Henry Sweeney . . ." is curiously skewed. For whereas Sweeney's 1927 and 1928 articles might well be traced to the *Goldmarkbilanz* ideas of Mahlberg and Schmalenbach, over eighty percent of *Stabilized Accounting* [1936] uses the *Tageswerte* (current/replacement values) valuation of non-monetary assets. We agree with Graves' assessment that Schmalenbach [1921], and to a greater extent Mahlberg [1923], undoubtedly influenced Sweeney's 1927 and 1928 works. But the extent of Sweeney's recourse to Schmidt is unequivocal. In particular, the evidence presented in Clarke and Dean [1986 and 1988] suggests that Schmidt had at least as great an impact on Sweeney's post 1928 works as did Mahlberg.⁵

⁴"The 'statists' objective [is to produce a] realistic snapshot of the entity's current assets, liabilities and net worth . . . [whilst] the 'dynamists' objective [aims at] measuring accurately the performance of an entity resulting from the transactions for the period" [Tweedie and Whittington, 1984, p. 21].

⁵For a discussion of Mahlberg's impact on Sweeney see Graves [1989].

From January 1928 to December 1930 nothing was published in the accounting literature under Sweeney's name. Possibly this was a period in which he reflected on criticism of his earlier works. In several of his post 1928 works reference is made to one such critic, Fritz Schmidt [1930, pp. 280 and 284; 1931, pp. 166 and 176-77; 1933, p. 190; 1935, p. 199 and 1936, pp. 40-42, 47 and 193]. In the 1936 preface of *Stabilized Accounting* (p. xiv) he declared he became fully aware of Schmidt and his ideas in 1929, through Schmidt's criticism of his "concepts of the fundamentals of stabilized accounting." Later in the text (p. 40) Sweeney refers to Schmidt as "the German authority on stabilized accounting." Although not specifically stated in any of Sweeney's works it appears likely these deliberations occurred after Schmidt delivered a paper on *Valuation* at the 1929 International Accounting Congress held in New York in September. Indirect support for this emerges in Sweeney [1935, p. 191]. In the preface of *Stabilized Accounting* Sweeney suggests the pause in his writings was to take account of "the French literature . . . which had benefited from the earlier experiments in neighbouring Germany . . . [which were based on replacement cost ideas of the Germans] and [thus] tended to be more mature, concrete and practical" (p. xxii). These points link Sweeney's ideas, and certainly his preferred mode of stabilized accounting, more with Schmidt than with any of the other *Betriebswirtschaftslehre* theorists.

As noted Sweeney's preference for replacement or reproductive cost has been identified elsewhere [Clarke, 1976 and 1982, Mattessich, 1982, Tweedie and Whittington, 1984 and Clarke and Dean 1986 and 1988]. But it might be useful to reflect on the significance of that preference for every analysis of Sweeney's adoption of the German indexation methods as part of *Stabilized Accounting*.

It seems that in many parts of the accounting literature Sweeney's use of indexation or scaling techniques has been taken to be evidence of his affinity with scaling accounts data *per se*, rather than as a means of his primary end — achieving homogeneity in accounting data. Pursuit of this was stated in his 1935 article "to make accounting data more accurate by removing much of the effect of the fluctuations in the value of money" [1935, p. 185]. In the professional literature promoting various forms of indexed (general price level or constant dollar) methods, attributing unwarranted importance to the scaling might be expected. The emphasis there, rightly or unequivocally, is on the techniques. But, drawing such inferences from

part of the historical analysis of the development of ideas is less than conducive to the production of a penetrating history.

Evidence that Sweeney opted for the convenience of indexation of historical cost data, rather than a "pure" replacement method *per se*, is to be found in several sources. First, with respect to its arithmetical simplicity, his approbation is reasonably evidenced in the 1927 and 1928 articles (to which Graves refers). It continues through both "Income" [1933] and "Capital" [1933] as well as "How Inflation Affects Balance Sheets" [1934]. It is explicit in "Stabilized Appreciation" [1932, p. 115]; in "The Technique of Stabilizing Accounting" [1935, p. 197]; and reiterated in *Stabilized Accounting* [1936, pp. 7, 42, 51, 159, et al.]. "The Technique of Stabilized Accounting" [1935], for example, alludes to his ranking of priorities — homogeneity first and replacement or reproduction costs second — explaining:

... valuation at cost of reproduction ... conduces towards more homogeneous measurement of all assets than does valuation at original cost. (p. 197).

And in *Stabilized Accounting* [1936] he reinforces that thrust with the observation:

... stabilized accounting, although primarily interested in homogeneous measurement, *cannot refrain* from giving *more* approval to replacement cost as a valuation base than to ordinary original cost [emphasis added, p. 51].⁶

Second, with respect to the arithmetical propriety of a scaling mechanism using index numbers, the thrust in 1927 and 1928 was toward arithmetical comparability [1927, p. 183 and 1928, p. 104]. Then in *Stabilized Accounting*, the contextual relations of Sweeney's complaint of the mathematical impropriety of conventional accounting (p. 7) and the illustration of the basic indexation method (without any reference to inferences to be drawn from the resulting data), are to be found. Unquestionably the emphasis was on the indexing method, more than on the substance of the data produced. And, thirdly, in the 1934 *Harvard Business Review* article on "Approximation of Appraisal Values by Index Numbers," the linking of the scaling mechanism with approximation of replacement (or

⁶Sweeney suggests replacement cost valuation is to be preferred as it "seems capable of giving more useful information to all concerned" and it also yields "values that in the long run approximate more closely the values derived from the ideal method of determining value" [1936, p. 53].

reproductive cost) data, clearly emphasizes the trade-off between simplicity of method and the substance of the resulting data.

POSTSCRIPT

Considering only the links with the *Goldmarkbilanz* proposals precludes identification of the extent of the influence the work of the leading replacement cost based stabilization theorist, Fritz Schmidt, had on the development of Sweeney's *Stabilized Accounting*. Thus, it was argued that Graves [1987] provides only a partial explanation of the complex of the interacting factors influencing the development of Sweeney's inflation accounting proposals.

Unravelling the myriad of influences on Sweeney's work is a daunting task. Graves' contribution has lightened the load for those who have been tracing through the European inflation accounting literature trying to identify the course of the development of ideas on how to make accounts incorporate the financial effects of price and price level changes. At this stage in that task it appears premature to interpret Sweeney's resort to scaling methods as his entertaining a *particular strong* affinity with the aims of either Mahlberg or Schmalenbach.

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